VZCZCXRO1886
RR RUEHBI RUEHDE RUEHLH RUEHPW
DE RUEHIL #5394/01 3641215
ZNR UUUUU ZZH
R 301215Z DEC 07
FM AMEMBASSY ISLAMABAD
TO RUEHC/SECSTATE WASHDC 4098
INFO RUCPDOC/USDOC WASHDC
RUEHNE/AMEMBASSY NEW DELHI 2559
RUEHBUL/AMEMBASSY KABUL 7966
RUEHDO/AMEMBASSY DOHA 1465
RUEHDE/AMCONSUL DUBAI 1700
RUEHBI/AMCONSUL MUMBAI 3732
RUEHLH/AMCONSUL LAHORE 4457
RUEHKP/AMCONSUL KARACHI 8521
RUEHPW/AMCONSUL PESHAWAR 3087

UNCLAS SECTION 01 OF 02 ISLAMABAD 005394

SIPDIS

SENSITIVE BUT UNCLASSIFIED

SIPDIS

E.O. 12958: N/A
TAGS: PREL ECON ETRD EICN EINV PBTS PGOV PK
SUBJECT: OPEN COMPETITION LEADS TO VERY LOW MOBILE PHONE RATES

¶1. (SBU) SUMMARY: Pakistan's telecommunication policy reforms earned the country USD 8.0 billion in investments over the past four years. Promotion of open competition in the telecom industry has led to some of the lowest mobile phone rates in the world and substantially increased the average Pakistani's access to overall phone communication. The telecom industry is an incredibly positive force in the economy and will continue to be so as long as the reforms stay in place. END SUMMARY.

Telecom Growth Engine

¶2. (SBU) Pakistan's telecom sector has become a major engine of economic growth as a result of the Pakistan Telecom Authority (PTA) policy reforms. These changes lead to incredibly low mobile phone rates and USD 8.0 billion in investment by telecom companies over the past four years. Currently, 48 percent of the population has access to some form of mobile communication service while 89 percent have access to a telephone service. Teledensity has increased from 4 percent in 2003 to 35 percent in 2007.

¶3. (SBU) Many government officials have extolled the telecom sector's impressive performance in press and speeches over the last year. The Secretary of Information Technology, Farrakh Qayyum, said in a local press article that the telecom sector constitutes 2 percent of the GDP and is expected to rise to 3 percent in the next three to four years. In a speech to the World Bank in May, former Prime Minister Shaukat Aziz said the telecom sector is a major employer of skilled jobs as its exponential growth has resulted in the creation of 80,000 jobs directly and 500,000 jobs indirectly. The government receipts from the telecom sector as taxes, dividends, and indirect revenues amount to USD 1.3 billion per year.

Very Low Mobile Rates

¶4. (SBU) Currently, Mobilink, the largest of six mobile telecom operators in Pakistan, offers rates as low as USD 0.013/minute for outgoing calls and USD 0.016/SMS text message. Domestic and international calls via mobile phones are extremely cheap at USD 0.05/minute. Sargana explained that the PTA monitors the rates of the Significant Market Power Players (SMPP) and ensures that SMPPs do not drop their tariff rates to a degree that would drive smaller operators out of the market. PTA uses Mobilink as a benchmark to determine the tariff structure.

Past Monopoly and Present Open Competition

¶5. (SBU) Mr. Arif Sargana, Director of Economic Affairs, PTA,

discussed with EconOffs on Nov 27 the innovative policies. Prior to 2003, mobile and fixed line rates were very expensive in Pakistan because then state-owned Pakistan Telecommunications Company Limited (PTCL), a government-owned enterprise, had a monopoly on all fixed line telephone services and set the tariff rates. According to Sargana, PTCL rebuffed suggestions by the GOP to lower tariff rates and insisted that the government pay a subsidy to replace lost revenue. In 2005 the GOP sold PTCL to the private Dubai-based telecom company Etisalat in a deal worth USD 2.57 billion. The sale was part of the GOP's plan to privatize government-owned, money-making ventures and increase the foreign exchange reserves.

¶6. (SBU) Mobile services began operation in Pakistan in 1990 with only two companies, Mobilink and Ufone. Egyptian owned Mobilink had a 70 percent market share and Ufone was owned by PTCL, which resulted in little market competition. Most mobile phone activity was concentrated in the urban areas. Sargana credited, former PTA Chairman, retired Major General Shahzada Alam Malik, as instrumental in bringing down tariff rates. Malik convinced the GOP to allow more mobile players into the market. As a result, Telenor (Norwegian) and Warid (UAE) entered the market and paid USD 291 million each for an operating license from PTA.

¶7. (SBU) PTA decided to institute a program called Calling Party Pays (CPP) in 2001 to allow mobile operators to set their own rates for outgoing calls and SMS text messaging, said Sargana, but prohibited charges for incoming calls. CPP has given a boost to the mobile telecom sector and the market has grown at a tremendous pace - USD 2.3 million subscribers added per month.

Spurring Investment and Access
-- ----

¶8. (SBU) Part of the open market success story is PTA's structure for charging license fees of USD 291 million to telecom operators in the mobile market. In Pakistan, mobile operators pay 50 percent of the set licensing fee in the first three to four years and the remaining 50 percent over ten year installments. By comparison, in India, operators pay low initial licensing fees, but pay 10 percent of their annual revenues as fees to the government. Sargana believes that the fixed rate method rather than the percentage rate method for licensing fees makes investment more attractive in Pakistan because investors earn more revenue over the long-run.

Rural Telecom Development Planned
-- ------

¶9. (SBU) PTA has programs for rural telecom development through the Universal Service Fund (USF) which has a balance of USD 83 million, Sargana said. Over the next year PTA will help set up 400 telecenters in rural areas equipped with telephone, fax machines, scanners, and photocopiers. Approximately 40 centers were already established free of cost. PTA also has a program collaborating with two microfinance banks to provide loans of up to USD 833 to encourage the set up of similar centers in other rural areas in addition to the offer of reduced tariffs.

¶10. (SBU) COMMENT: The telecom sector is a critical part of Pakistan's growth and demonstrates the potential short-term results that can be achieved through privatization and government reform. Pakistan's telecom industry is one of the most progressive sectors of the economy. The continued potential growth and attractive investment returns appear to mitigate the political risk for foreign investors in this sector. END COMMENT.

PATTERSON